



Ontario
Economic
Council

81 Wellesley Street East
Toronto, Ontario
M4Y 1H6

(416) 965-4315

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PUBLICATION RELEASE

TORONTO . . . January 28, 1985. There would be far-reaching implications should a province decide to withdraw from Canada's Tax Collection Agreements and institute its own collection system for the personal income tax. Such a decision surely would affect the entire country.

The Ontario Economic Council has examined the economic implications of a separate personal income tax for Ontario in response to a reference from the province's Treasurer. This volume constitutes the third tier of the Council's response. *A Separate Personal Income Tax for Ontario: Background Studies* is edited by the Council's Research Director, David Conklin.

The Council's official response to this reference was published early in 1983, *A Separate Personal Income Tax for Ontario: An Ontario Economic Council Position Paper*. The second tier, written by Professor Douglas G. Hartle, was published in late 1983, *A Separate Personal Income Tax for Ontario: An Economic Analysis*.

All provinces except Quebec are part of the federal government's tax collection system. All provinces have the constitutional right to establish their own separate personal income tax (PIT) systems. Consideration has been given to doing this in Ontario. The studies in this book were designed to assist Ontario in reaching a decision.

This report reflects the views of the authors and not necessarily those of the Ontario Economic Council. The Council establishes policy questions to be investigated and commissions research projects, but it does not influence the conclusions or recommendations of authors. The decision to sponsor publication of this study was based on its competence and relevance to public policy and was made with the advice of anonymous referees expert in the area.



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The studies describe the advantages and disadvantages of a province establishing its own PIT. A key theme is that there are in fact limitations of a separate PIT, and that most government objectives that could be achieved through a separate provincial PIT could also be achieved through unique provincial expenditure programs.

This book examines the way in which a PIT can enable a government to achieve its objectives. For example, a government can use a PIT to change the financial incentives faced by individuals, and so change their behaviour. In particular, a PIT can affect decisions about saving, investment, and work. Consequently, a government may be able to use PIT to alter the nature and pace of economic growth. A government can raise or lower PIT rates in hopes of moderating business cycles. Like Quebec, a province can establish its own separate PIT as a means of advancing its own unique political objectives.

It can be argued that Ontario should develop its own separate PIT to suit its residents' special needs and to foster the development of Ontario's unique economy. It can also be argued that levying the Ontario PIT as a percentage of the federal PIT hampers the pursuit of Ontario's best interests.

The studies in this book reveal the limitations of a separate provincial PIT. A government would not in fact be able to use such a PIT as easily or as effectively as might seem possible at first glance. Throughout the studies runs the theme that provinces are greatly affected by events and circumstances outside their borders. Canada is 'a small, open economy' and our provinces are even smaller and more open. The fact that labour, capital, and products can move readily from one province to another means that the special features of any one provincial PIT can be obviated to a large degree by migration, by capital flows, and by changes in trade patterns.

For this and other reasons, considerable uncertainty surrounds predictions about the impact of any provincial PIT that is significantly different from those of the federal government and the other provinces.

The costs of a separate PIT are substantial. The administrative costs and the compliance costs would amount to several hundreds of millions of dollars.

This investigation of the economic implications of a separate personal income tax reveals that in Canada today, a powerful case can be made for tax harmonization and a unified national pursuit of economic goals. Consequently any province that considers the adoption of a separate provincial personal income tax will find some cause for hesitation in the studies in this book.

CONTRIBUTORS

Robin Boadway and Neil Bruce of the Department of Economics, Queen's University, Kingston, have contributed three separate papers examining the implications of a PIT for savings, pensions, and investment.

Edwin Neave of the School of Business, Queen's University, Kingston, examines in considerable detail 'The Problem of Financing New, Small Business Ventures'.

A paper by Thomas Wilson, Chairman and professor, Department of Economics, and Institute for Policy Analysis, University of Toronto, is called 'Stabilization Policy Issues: an Appraisal of Possible Roles of Flexible Fiscal Policies in Ontario'.

Enid Slack, a consultant, Ontario Economic Council, examines the possibility of using an Ontario PIT as a mechanism for municipal funding.

Claude Forget, Associate Director, C.D. Howe Institute, Montreal, examines 'Quebec's Experience With The Personal Income Tax'.

John Thompson, national tax partner, Coopers and Lybrand, Chartered Accountants, has written two papers to consider the costs of implementing a separate Ontario PIT.

Sam Bucovetsky, Department of Economics, University of Western Ontario, deals with 'The Relationship between Geographic Mobility of Individuals and the Structure of the Provincial Personal Income Tax'.

Frank Flatters, Department of Economics, Queen's University, Kingston, extends the analysis of the interprovincial impacts of an Ontario PIT to consider its implications for the Canadian common market.

Wayne Thirsk, Department of Economics, University of Waterloo, examines the goal of tax harmonization within a federal system.

Richard Simeon, Department of Political Studies, Queen's University, Kingston, considers various political procedures that could facilitate the integration of federal and provincial economic policies so as to ensure the maintenance of the economic union.

These studies could be useful for a province that does decide to institute its own separate PIT. They cast light upon the issues that must be considered in the design of any PIT. They indicate the ways in which a province might construct a PIT so as to achieve its desired objectives. They examine the side-effects and ramifications of particular PIT features. They provide guidance in the choice of an optimal PIT for a province.

FOR FURTHER INFORMATION PLEASE CONTACT:

David Conklin, Research Director,
Ontario Economic Council

(416) 965-4315

A Separate Personal Income Tax for Ontario: Background Studies, D W. Conklin (ed.), 380 pages, price \$13.50, is available at the following outlets:

The Ontario Government Bookstore, 880 Bay Street, Toronto, to those shopping in person. Out-of-town customers may write: Publications Section, Fifth Floor, 880 Bay Street, Toronto, Ontario, M7A 1N8, or telephone 965-6015 (toll-free long distance, 1-800-268-7540; in northwestern Ontario, 0-Zenith 67200). A cheque or money order, payable to the Treasurer of Ontario, must accompany all mail orders.

Renouf Publishing Company Limited, 61 Sparks Street, Ottawa, Ontario, K1P 5A6, telephone (613) 238-8985.

The Bookstore, Windsor Public Library, 850 Ouellette Avenue, Windsor, Ontario, N9A 4M9, telephone (519) 255-6765.